

Accountability and Oversight

RACE TO THE TOP FISCAL ACCOUNTABILITY AND OVERSIGHT REVIEW

North Carolina

Date of Review: April 8, 2014

Race to the Top award: \$399,465,769.00

Acronyms:

ARRA – American Recovery and Reinvestment Act of 2009

EDGAR – *Education Department* General Administrative Regulations (codified in 34 Code of Federal Regulations, Parts 74 to 86 and 87 to 99)

GEPA – General Education Provisions Act

ISU – Implementation and Support Unit

LEA – Local Educational Agency

Summary of Monitoring Review:

During the Year 4 review, the Department did not identify any new issues or concerns. The Department followed up on issues with adherence to cash management principles identified in previous reviews.

Summary of Monitoring Indicators

North Carolina				
Critical Element	Requirement	Citation	Results	Page
Allocations to LEAs	The State allocated funds to participating LEAs based on their relative share of funding under Title I, Part A of the Elementary and Secondary Education Act of 1965.	ARRA Section 14003(a)	Met Requirement	
Fiscal Oversight of Race to the Top Funds	The State and sub-recipients used the funds only for allowable activities.	ARRA Sections 14002(b), 14003, 14004, 1604, 1605, and 1606	Met Requirement	
	The State and sub-recipients complied with the principles of cash management (<i>i.e.</i> , funds advanced were actually expended).	EDGAR § 80.21	Met Requirement	4-5
	The State and sub-recipients have systems to track and account for Race to the Top funds in place.	EDGAR § 80.20	Met Requirement	
	The State and sub-recipients complied with cross-cutting ARRA requirements (<i>e.g.</i> , Section 1512 reporting, Buy American, infrastructure certification).	ARRA Sections 1511, 1512, 1604, 1605, 1606, and 1607	Met Requirement	
	The State and sub-recipients used the funds only during the period of availability (which may include pre-award costs).	ARRA Section 1603 and GEPA 421(b)	Met Requirement	
1511 Certifications (if applicable)	The State certifies that infrastructure investments have received the full review and vetting required by law and accepts responsibility that it is an appropriate use of taxpayer dollars.	ARRA Section 1511	Met Requirement	
Quarterly ARRA Reporting	The State is ensuring compliance with ARRA Section 1512 quarterly reporting regulations.	ARRA Section 1512	Met Requirement	
	The State established clear policies and procedures for compliance with applicable reporting requirements.	ARRA Sections 14008 and 1512	Met Requirement	
	The State provided guidance on reporting to LEAs.	ARRA Sections 14008 and 1512	Met Requirement	
	The State provided feedback to LEAs on the data reported.	ARRA Sections 14008 and 1512	Met Requirement	

North Carolina				
Critical Element	Requirement	Citation	Results	Page
Sub-recipient Monitoring	The State has developed a monitoring plan with appropriate policies and procedures to assure compliance with applicable Federal requirements and that the grant performance goals are being achieved throughout the project period.	EDGAR §80.40; Race to the Top grant condition “O”	Met Requirement	
	The State has developed comprehensive monitoring protocols that include programmatic and fiscal monitoring.	EDGAR §80.40; Race to the Top grant condition “O”	Met Requirement	
	The State has established a reasonable monitoring schedule.	EDGAR §80.40; Race to the Top grant condition “O”	Met Requirement	
	The State has provided monitoring reports and corrective action follow-up (when available).	EDGAR §80.40; Race to the Top grant condition “O”	Met Requirement	

Monitoring Report Results

Description of Backup Documentation for Fiscal Oversight of Race to the Top Funds

The documentation that the North Carolina Department of Public Instruction (DPI) and its LEAs submitted, both prior to and during the review, is consistent with the requirements outlined in Attachment 2.

Outstanding Issues, Concerns, or Clarifications for Verification

During the Year 4 review, the Department did not identify any new issues or concerns. The Department followed up on issues with adherence to cash management principles identified in previous reviews.

The 2010 State Fiscal Stabilization Fund (SFSF) monitoring found that, in an effort to expedite distribution of funds to LEAs, the State did not require funds to be requested on a reimbursement basis. Instead, the State released the funds in a manner that had the potential for LEAs to have cash on hand exceeding SFSF expenditures. As a result of this finding from the 2010 SFSF monitoring, the Department examined the issue further through its Race to the Top program review process. During the Year 2 Race to the Top onsite review, the State provided evidence of progress towards implementing plans to resolve the issue, including increased opportunities for LEAs to request to draw down funds and for the State to draw down funds from the Department. Between July 2012 and January 2013, the State submitted evidence of development of a procedure to monitor LEAs' adherence to cash management principles through an online cash management monitoring system (CMMS).

During the Year 3 onsite review, the Department learned that the State launched the CMMS on March 28, 2013, and received relevant clarification from DPI on the State's G5 drawdown procedures. For State-level expenditures, the State operates on a reimbursement basis, expending State funds prior to drawing down funds from G5. For LEA and charter school expenditures, the State operates on a cash advance basis: LEAs and charter schools request funds approximately three days ahead of the date the funds are required to meet expenditures. Funds for LEAs and charter schools are deposited into non-interest bearing accounts, and on a monthly basis LEAs and the State balance between requested funds and actual expenditures.

The CMMS produces reports comparing the date funds were received and the amount of funds expended within three days of receipt. Any funds not expended within three days are marked as "out of compliance" with the "three-day rule." As of April 2014, the State reported that all districts had been trained in the use of the system and had access to the data. The CMMS generates reports that identify individual instances (*i.e.*, based on specific draws for specific grant programs) of noncompliance with the three-day rule. In May 2014, the State provided reports to show that its efforts to address cash management issues were helping decrease the number of LEAs being out of compliance with cash management rules.

As of fall 2014, the State reported that the CMMS continues to be available to LEAs as a tool for self-monitoring of compliance with the "three-day rule." DPI also reported that its Division of School Business Administration has included cash management monitoring in its fiscal monitoring policy and procedures, which include consequences for LEAs that fail to implement corrective actions for deficiencies identified during the monitoring process. In conversations following the Year 4 onsite review, DPI indicated that beginning in SY 2014-2015 cash management was integrated into its selection process and tool used for the State's fiscal monitoring of LEAs. According to the State, beginning with SY 2015-2016, the results of cash management monitoring efforts will be integrated into risk assessment and selection process for entities to be monitored onsite.

Based on the efforts described above, the Department believes that the State has made significant efforts since the SFSF monitoring review to address cash management in its LEAs. However, DPI has not yet provided evidence that consequences have been implemented for LEAs or charter schools that have been out of compliance with cash management policies. The Department will continue to review the State's implementation of the CMMS to support LEAs to meet cash management requirements through the Race to the Top program review process, including SY 2014-2015 calls and submission of closeout materials. It will be important for the State to continue to use mechanisms such as the CMMS to monitor and ensure LEA and charter school compliance with cash management policies as LEAs with no-cost extensions continue spending Race to the Top funds and in other federal programs, as applicable.